# Public banks at a time of Covid-19: opportunities, threats, and just transitions

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Over the past year governments around the world have taken unprecedented measures to support businesses and households in the face of the Covid-19 pandemic. One overlooked part of this response has been the role of public banks, which have been mobilised across the world to combat the economic fallout from the pandemic.

Public banks are banks that exist and persist within the public sphere of nation states. This can be by virtue of being owned by a government or public enterprise; by virtue of being governed or controlled by public authorities; or by virtue of being legally bound to a public mandate.

There are many types of public banks, but three dominate: development banks, commercial/retail banks, and universal banks. Public banks are pervasive, with over 900 institutions worldwide, most of which are many decades old with expansive national and international networks. They are also powerful, having amassed combined assets nearing $49 trillion. The smallest have hundreds of millions in US dollar assets, and the largest hundreds of billions. Most public banks have also acquired important institutional legacies and bases of knowledge and expertise.

As work at the UCL Institute for Innovation and Public Purpose and elsewhere has shown, using public banks to promote public policy objectives is not new. But Covid-19 has meant that the role they play in many economies has grown and evolved. Learning the right lessons from the pandemic can therefore help us identify how public banks can be most effectively mobilised to tackle other major challenges, such as social inequality, gendered and racialised injustice, and climate change.

## Making time available

In our new book, *Public Banks and Covid-19: Combatting the Pandemic With Public Finance*, we take a 'rapid response' snapshot of how public banks have responded to Covid-19 and identify a number of key lessons.

First, public banks **responded rapidly** to the onset of the Covid-19 pandemic and to the sudden stop in economic activity. In January 2020, the People's Bank of China and the Chinese public commercial banks moved quickly to maintain liquidity in the banking system and to provide low-cost lending. So too in Italy. In less than a week after the first case of Covid-19 was announced, the Cassa Depositi e Prestiti (CDP) set up the measures to support enterprises and local authorities.

Second, where public banks had clear **public purpose mandates**, they were able to pursue these in response to the crisis and with the full support of political authorities. Between April and July 2020, the Council of Europe Development Bank (CEB), a multilateral development bank with an exclusively social mandate, provided 15 new loans, worth about €3 billion, to 15 countries via its Public Sector Finance Facility in support of healthcare service provisioning. The Italian CDP likewise responded in accordance with its public purpose mandate. Where public mandates have been eroded by neoliberal transformation or weak public governance structures (as in

Turkey, Mexico, Argentina, India, and Brazil), this has not happened to the same extent.

Third, in most cases public banks could take **bold, generous, and crisis-facing action**. National and sub-national public banks made time available by providing new loans, credits, and financing and by delaying the repayment of old loans and existing debts, often crafting innovative responses to support students, households, micro-, small- and medium-sized enterprises, large businesses, industry, health authorities, essential public services, and local and national government. Public banks offered *time* to breathe, *time* to adjust, and *time* to overcome the worst of the immediate crisis. This often meant offering liquidity with generously reduced rates of interest and preferential repayment terms. For the most vulnerable, some public banks offered non-repayable grants. The European, African, Latin American, and Asia Pacific public and development bank associations detail the crisis-facing actions taken in their regions.

Fourth, we also learned that it is unimaginable that public banks could have done so without already **existing institutional capacity and historical legacies**. The German government tasked its development bank, the KfW, with expanding domestic financing by at least €757 billion (24 percent of GDP) while increasing and coordinating its development support programmes abroad, often in coordination with the European Union and other European development banks — an impossible prospect without already having in place the historical and institutional capacity to do so.

Finally, we see the advantages of the non-competitive **public-public solidarity** that emerged between public banks and other public services, financial institutions, and governing authorities. Much like the CEB, Portugal's Caixa Geral de Depósitos (CGD) response to the Covid-19 pandemic played a role within the Government's public health management and its anti-cyclical lending programme. The CGD, like the Chinese banks, also coordinated with public authorities and the Bank of Portugal to offer debt relief and protections. Elsewhere, public banks like the Nordic Investment Bank, the Bank of North Dakota, the Banco Popular y de Desarrollo Popular likewise demonstrated the socio-economic benefits of coordinating their responses with other financial and non-financial public entities.

All this helped make time available when it was needed most.

## Opportunities for green and just transitions

The way that public banks responded to Covid-19 also offers lessons for catalysing green and just transitions globally. The magnitude of the climate crisis demands immediate action guided by public purpose in ways that are bold, generous, and climate crisis-facing. Climate activists must reclaim the massive institutional capacity and legacies of already-existing public banking institutions, building on non-competitive public sphere solidarity to anchor socially-just and climate-friendly ambitions. The same features which meant that public banks were well placed to confront Covid-19 must also be leveraged to catalyse green and just futures.

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Public banks have already begun moving in this direction in three important ways. Firstly, by offering a path towards **definancialisation** — that is, an alternative to the short-term, speculative, and often predatory practices of financialized world markets. Shielded by the public sphere, public banks need not operate in narrowly profit-maximising terms but can instead provide catalytic and patient finance with long-term public and environmental benefits.

Second, by urgently providing patient finance directed towards the climate crisis, we have a viable path towards tackling **decarbonisation**.

Finally, public banks offer a potential path towards **democratisation**, that is, for society to command a meaningful say over how public financial resources are deployed.

### The threat of a neoliberal backlash

As public banks have grown in importance during the Covid crisis, the threat of a neoliberal backlash, particularly from advocates of what has been described as the 'Wall Street Consensus' (WSC), has also increased. Having done what was commanded of them in response to Covid-19, public banks might soon come under fire for the build-up of bad debts and the damage to their bottom lines.

Private financial institutions, having done little for Covid-19 recovery without public guarantees, may call for the hiving-off of public banks' bad debts into a 'bad' bank or asset management corporation (from where they can be acquired with massive discounts) and the privatization of 'costly and inefficient' public banks (to be then bought at bargain basement prices).

Where bank privatizations are politically unfeasible, advocates of the WSC will continue to project its neoliberal logic of bending public finance to the needs of private accumulation. This is the approach that is favoured by the World Bank through its *Billions to Trillions* and *Maximizing Finance for Development* and agenda. Under this strategy, public banks are tolerated but their role is limited to socialising and de-risking private investments as the only viable means of mitigating climate change.

But in reality the results will be neither green nor just. In class-divided society, the costs will fall disproportionately on workers, women, and the most marginalised as even more financial wealth and capacity are channelled into the pockets of polluter-paid-first private investors.

## Fierce democratisation

If we are to avoid a backlash against public banks and instead 'build forward better for people and planet', the mandates and governance structures of already existing and newly forming public banks — such as the new Scottish National Investment Bank and UK National Infrastructure Bank — must be bent to the public, not private, interest. It is only by being made democratic that public banks can be shielded in the public sphere from neoliberal backlash and Wall Street Consensus inanities.

This means that public bank mandates and missions must reflect and respond to societal priorities and challenges in practical terms. To do so, governing boards must be made broad-based and representative of social diversity, while being legally bound to democratic, accountable, and transparent practices within public law.

Without fiercely democratic public banks, the challenge of sustainably and equitably financing environmentally green and socially just transitions will be far greater.

Banking Covid 19 Economics Development